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# *The Public Service Commission State of South Carolina*


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January 29, 2003

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SC PUBLIC SERVICE COMMISSION

Honorable Gary E. Walsh
Executive Director
Public Service Commission of South Carolina
Post Office Drawer 11649
Columbia, SC 29211

**RE: Docket No. 2000-366-A – Application of Chem-Nuclear Systems, LLC, a division of GTS Duratek, Inc. for Adjustment in the Levels of Allowable Costs and for Identification of Allowable Costs.**

Dear Mr. Walsh:

Pursuant to R.103-869 of the Commission's Rules and Regulations, I am herein enclosing the original and twenty-five (25) copies of the testimony and exhibits intended to be offered by the one (1) witness for the Commission Staff in the above referenced proceeding. Copies of the testimony and exhibits are being served on the parties of record as per attached Certificate of Service.

If I may be of further assistance, please do not hesitate to contact me.

Sincerely,

F. David Butler

F. David Butler
General Counsel

FDB/hha
Enclosures

cc: All Parties of Record

**Q. Please state for the record your name, business address and position with the Public Service Commission of South Carolina.**

A. My name is William P. Blume. My business address is 101 Executive Center Drive, Columbia, South Carolina. I am employed by the Public Service Commission of South Carolina as an Audit Manager 2.

**Q. Please state your educational background and your experience.**

A. I received a BS Degree in Business Administration with a major in Accounting from the University of South Carolina in 1972. I am licensed as a Certified Public Accountant, certified in the State of South Carolina. I have twenty-seven years of experience in the auditing profession. Twenty-two of those years were involved in the Utility regulatory rate-making process. I also testified for the Commission Staff in the prior two (2)hearings involving Chem Nuclear, Docket #2000-366-A, held before this Commission in the setting of allowable cost for fiscal years ending June 30, 2001 and 2000.

**Q. What is the purpose of your testimony involving Chem-Nuclear Systems, LLC?**

A. The purpose of my testimony today is to explain the Staff's report which resulted from our review of the operations of Chem-Nuclear for the fiscal year ended June 30, 2002 as such report relates to costs in excess of those costs allowed in the Commission's previous Order 2002-395; to report on the staff's review of the Company's change from the presently allowed JD Edwards Accounting System to the new Cost Point Accounting System; and to present the Staff's proposed allowed costs for the fiscal year ending June 30, 2003.

**Q. Are the attached exhibits a result of that review?**

A. Yes they are.

**Q. Would you explain the Exhibits that are attached to your testimony?**

A. Yes I will. I have a number of Exhibits related to my review of Chem Nuclear's filing for recovery of excess cost as of June 30, 2002.

**Exhibit A** is a detailed report which presents Staff's proposed allowable costs to be reimbursed to the Company for operations occurring during the fiscal year ending June 30, 2002.

**Exhibit A-1** is Staff's proposed Operating Experience and Reimbursable Costs as adjusted for fiscal year ending June 30, 2002.

**Staff Exhibit A-2** details Staff's proposed adjustments made as a result of the review performed by the Staff on the Company's books and records for fiscal year ending June 30, 2002.

**Staff Exhibit A-3** details the reconciliation between the Staff's proposed excess costs for fiscal year ending June 30, 2002 and the proposed excess costs as filed by Chem Nuclear for the same time period.

**Staff Exhibit AA** is the Staff's Proposed Allowed Costs for the fiscal year ending June 30, 2003.In this exhibit, the Staff presents proposed allowable costs calculated in two (2) differing methods. In one (1) method, the Staff calculated fiscal year ending costs using the recently filed OEP Plan to determine allowable costs. In the second (2) method, the Staff calculated fiscal year ending costs without the use of the OEP Plan.

**Staff Exhibit AA-1** details Staff's Operating Experience for Allowed Costs-With OEP Plan as a basis to determine this fiscal year ending costs for June 30, 2003.

**Exhibit AA-2** details Staff's Operating Experience for Allowed Costs-Without OEP Plan as a basis for forecasting the fiscal year ending costs for June 30, 2003.

**Staff Exhibit AA-3** is the Staff's Adjustments for Costs Allowed in Fiscal Year 2002/2003. Both adjustments making use of the OEP Plan and adjustments not using the Plan are detailed in this Staff exhibit.

**Exhibit AAA** is Staff's Operating Experience for Allowed Costs in Cost Point Detail Presentation-With OEP Plan as a basis for calculating such costs for fiscal year ending June 30, 2003.

**Staff Exhibit AAA-1** is Staff's Operating Experience for Allowed Costs in Cost Point Detail Presentation Without OEP Plan use for calculating such fiscal year end cost.

**Q. Would you address the Staff's findings as they relate to costs in excess of those costs allowed in the Commission's previous Order 2002-395?**

A. Yes, I will. The Staff did a detailed study of the expenditures made by Chem-Nuclear during the fiscal year ending June 30, 2002. Staff found a number of costs that in the opinion of the Staff needed to be addressed for this proceeding.

In addressing such costs, I will discuss each of the twelve (12) adjustments proposed in my report in the Staff's Exhibit A-2.

**Staff adjustment #1, Exhibit A-2** relates to a proposed adjustment in which the Staff is proposing to correct an out of period cost occurring in the Company's Vault Cost, account #5020. During the fiscal year ending June 30, 2002, the Company received waste that was not buried until July 2002. It is the Staff's position that such cost should be expended for accounting purposes in the operations ending fiscal year June 30, 2003. Such accounting entry made by the Company caused a mis-match of cost by booking costs more appropriately associated with another accounting period. As a result, the Staff is proposing the Commission disallow such costs.

The result of such a disallowance would require a decrease in Vault Costs totaling ($34,035). This cost would then be matched with costs of the up-coming period in which the costs are actually recognized for accounting and reimbursement purposes.

In its filing, Chem Nuclear had reported per book Vault and Trench Amortization cost totaling $1,485,959.

As a result of the Staff's proposing an adjustment of ($34,035), such cost would become $1,451,924.

Allowed costs as provided for in the previous Commission Order #2002-395 totaled $1,196,393. Staff's allowed excess cost for reimbursement with operating margin is shown as $255,531.

**Proposed Staff Adjustment #2 and proposed Staff Adjustment #5, Exhibit A-2** are a somewhat complicated set of adjustments. In the previous year's report made by the Staff to the Commission, Staff proposed a cost level for Direct Labor, account #5111, using costs incurred by the Company for PSC and Commission hearing costs. The Commission ordered a level of costs for this account using the Staff's proposed level of costs in that proceeding.

During the fiscal year ending June 30, 2002, the Company recorded such costs in its In-direct Labor account, #6111, which was not the case in 2001 operations. The result of such recording of costs as an indirect cost resulted in a mismatch of costs for purposes of reviewing excess costs in fiscal year ending June 30, 2002. For purposes of reviewing excess costs for 2002, actual Direct Labor costs were understated for the period while actual Indirect Labor costs were overstated.

As a result of this occurrence, the Staff is proposing to decrease the Indirect Labor account by ($100,343) while at the same time increasing the Company's filed Direct Labor costs by the same $100,343.

As a result of Staff's proposed adjustment to these two (2) labor accounts, there will be a proper matching of actual costs to the Commission's approved costs in Order #2002-395. As a result of the Staff's proposed adjustment to Direct Labor, allowed reimbursable excess cost for Direct Exempt Labor totals $88,492.

**Staff's Accounting Adjustment #3, Exhibit A-2** is a proposal by the Staff to correct an error which occurred in Affiliated costs, account #5151. This account represents 70% of labor, fringes and other operating costs of business unit #119, Safety. The costs had been reported as in excess of cost allowed by the Commission for the period ending June 30, 2002.

As a result of the Staff's review of these costs, it was determined that the Company had used a fringe cost level in excess of the allowed 33.4%. This resulted in the excess cost being overstated by $117. The Staff is proposing to reduce the actual costs amount by the ($117), therefore correcting the error resulting from an incorrect fringe rate. Staff's proposed allowed excess cost for this hearing totals $10,468.

**Staff's proposed Accounting Adjustment #4, Exhibit A-2** is being proposed to correct the amount of actual costs incurred in the Direct Calculated Fringe account #5249. As a result of the Staff's proposed adjustment to Direct Labor, #5111, the Staff was required to adjust direct fringes.

Total chargeable direct labor used by the Staff for purposes of this calculation totaled $1,537,086. This amount includes the $100,343 costs transferred from indirect labor to the direct labor account.

Also included in the labor costs was the $56,706 of labor charged to direct operations from non-disposal employees.

Using the approved fringe rate of 33.4%, Staff calculated direct fringe costs to be $513,387.

As a result, the Staff is proposing to increase direct fringe costs by a total of $37,055.

**Accounting Adjustment #5, Exhibit A-2** also is being proposed as a result of Staff's proposed adjustment to properly match labor costs that occurred when the Staff proposed to transfer $100,343 of labor from Indirect Exempt Labor where it had been recorded by the Company to

Direct Exempt Labor for purposes of this proceeding.

As a result of the Staff's adjustment to Indirect Exempt Labor, the Staff is eliminating the dollars requested by the Company as excess cost for reimbursement approval.

A detailed discussion of this adjustment can be found previously in my testimony beginning on line #5 on page #6.

**Adjustment #6, Exhibit A-2** is being proposed to correct the contra fringe account #6149, Calculated Fringes. The adjustment is necessary since this account reports fringe costs not considered as indirect costs and which are more appropriately shown else where.

The labor base used by the Staff totaled ($1,761,567). This cost is made up of direct labor costs, labor charged to others and labor charged from others. Included in such costs is ($1,537,086), total Direct Labor, ($324,760) which represents labor costs charged to others, $56,706 which is Direct Labor charged from others and $43,573, indirect labor charged from others.

Using the approved fringe rate of 33.4%, the Staff calculated that an adjustment to decrease the contra account was necessary and is proposing to decrease this account by $16,321. For purposes of calculating Staff's proposed allowed costs for reimbursement, this contra account shows a negative total of ($49,449).

**Staff Adjustment #7, Exhibit A-2** is being proposed to adjust Indirect Allowed Fringes, Account #6120. For purposes of this adjustment, the Staff used total chargeable labor cost for disposal operations equaling $2,621,596. Using the approved fringe rate of 33.4%, the Staff calculated a fringe cost of $875,613. In addition, the Staff added an additional $128,966, which represents non-chargeable fringe costs.

The total amount of Allowed Fringe cost as calculated by the Staff totaled $1,004,579. The amount calculated by the Staff is less than the actual amount of Indirect Allowed Fringe as reported by the Company in its filing for June 30, 2002 and required the Staff to propose an adjustment to decrease actual filed cost by ($50,280). As a result of Staff's proposed adjustment to Indirect Allowed Fringes, proposed allowed excess cost totals $65,057.

**Staff Adjustment #8, Exhibit A-2.** Staff's review of Account #7500, Services, resulted in a number of proposed decreases for elimination, deferrals and reimbursement only without operating margin treatment.

First, the Staff found it necessary to reduce the actual book amount by $15,000. $7,500 of this $15,000 dollars reduction was due to an out of period adjustment made by the Company for payments to an out side consultant. Such costs in the Staff's opinion should have been recorded as a cost to operate in the correct period which is not fiscal year ending June 30, 2002.

As it is, the Company failed to match this cost to the appropriate period chargeable. The additional $7,500 reduction was the result of Staff's correction of a posting error made by the Company during the fiscal year.

Next, the Staff is proposing to eliminate $42,339 associated with outside consulting services pertaining to the Company's arguments before the Commission to accept Operating Rights as an allowed cost for reimbursement in the previous year's hearing. The Company was granted approval by the Commission to be reimbursed for Operating Rights in Order #2002-395, but the Commission in that same order disallowed any operating margin recovery on Operating Rights. Because the Commission has disallowed any operating margin recovery for Operating Rights, the Staff is proposing that the consulting costs of $42,339 should be disallowed for operating margin recovery too. Such costs, in the opinion of the Staff, should be reimbursed, but should not be allowed a 29% operating margin. Due to this position, the Staff is proposing to eliminate the ($42,339) as allowable costs and to more correctly show such costs as reimbursable only.

The Company is also requesting cost coverage for $247,397 paid to an outside company to make an efficiency study which was ordered by the Commission in its last Order, #2002-395. The Staff is of the opinion that such cost should not be reimbursed in this proceeding, but should be deferred and addressed in the hearing to review fiscal year ending June 30, 2003. By agreement of several parties to the case, the Operating Efficiency Plan will be "tabled" until that particular hearing takes place before the Commission. Since the Commission will not be able to hear or review any evidence associated with how the OEP plan was developed during this proceeding, it is the opinion of the Staff that no position associated with the cost of the plan can be addressed in this current hearing.

As a result of evidence that will be given during the 2003 preceding, the Commission may be of the opinion that some or all of the costs may or may not be allowed for recovery and also whether or not any operating margin treatment should be allowed on such costs if approval is granted to recover OEP Plan cost. Since at that time the Commission will address the appropriateness of the plan by hearing evidence by all interested parties to the case, it would also appear that the appropriate time to address the cost issue would be at the same time the OEP plan is debated.

Due to this, the Staff is of the opinion that the ($247,397) should be eliminated for purposes of excess costs reimbursement for fiscal year ending June 30, 2002 and deferred until the 2003 hearing takes place before the Commission.

However, later in Staff's testimony, it should be noted that the Staff is using some formulas detailed in the OEP Plan to forecast labor and fringe costs for the fiscal year end June 30, 2003. Since the Staff is making use of the Plan for this purpose, the Commission may be of the opinion that a portion of the cost associated with the Plan could be allowed for recovery, while deferring the remaining costs until the Plan is discussed in the 2002/2003 fiscal year end hearing.

As a result of these aforementioned reductions to the Services account, the Staff is proposing to reduce actual filed per book cost for this account by ($304,736). For purposes of this hearing, ($15,000) would be eliminated completely for consideration, ($247,397) would be deferred until the next hearing before the Commission and ($42,339) reimbursed, only without any operating margin treatment.

These dollars total the Staff's proposed adjustment of ($304,736). As a result of the proposed adjustments by the Staff, there will be no excess allowed cost to be reimbursed and only $237,964 of actual adjusted cost would be reimbursed with operating margin treatment while $42,339 would be reimbursed without operating margin treatment.

**Adjustment #9, Exhibit A-2** as proposed by the staff addresses depreciation expense, Account #7700, reported by the Company in its filing for June 30, 2002.

The Staff annualized depreciation expense using depreciable plant items only as reported to the Commission Staff in a prior audit and making use of approved depreciation rates.

As a result of Staff's annualized depreciation expense for fiscal year June 30, 2002, the Staff is proposing to reduce depreciation expense as reported by the Company in its filing by a total of ($16,102).

The Staff's proposed allowed cost for Depreciation Expense would total $362,977. There would be no excess cost associated with Depreciation Expense.

**Staff's proposed adjustment, #10, Exhibit A-2** to allowed costs is a reduction of ($625,000), which represents approved Operating Rights. Such cost is not an allowed cost for the purposes of earning an operating margin, but is only a reimbursable cost and should be shown as such for this proceeding.

Due to this opinion by the Staff, the staff is proposing adjustment #10 which will eliminate Operating Rights of ($625,000) from allowed costs and properly show such cost as reimbursable only.

**The Staff's final two adjustments, #11 and #12, Exhibit A-2** are being proposed in order to transfer costs associated with the Company's defense of Operating Rights, $42,339, and Operating Rights themselves, $625,000 to costs to be reimbursed without operating margin treatment of 29%.

**Q. What does the Staff propose as allowed excess costs**

**for fiscal year ending June 30, 2002?**

A. In its filing, Chem Nuclear requested reimbursement costs coverage totaling $8,500,581. Of this amount, $906,386 was costs in excess of the approved amount as detailed in Commission Order #2002-395.

Staff's proposed reimbursement as shown in Staff Exhibit A-3 totals $534,156. Of this amount, $491,817 would have 29% operating margin treatment while $42,339 would only be reimbursed without any operating margin treatment. Total reimbursable costs including the Staff's excess costs is $8,191,025.

The overall difference between the Staff's recommended excess costs level of $534,156 and the Company's level of $906,386 is $372,230.

This total decrease in excess costs is made up of a decrease in Vault and Trench Amortization Costs totaling ($34,035), an increase in Direct Costs totaling $108,756, a reduction in Indirect Costs totaling ($489,288), and an increase in costs not allowed an operating margin totaling $42,339.

Staff's Exhibits are defined as follows: Staff's Exhibits A, Reimbursable Cost as Proposed by Staff, A-1, Operating Experience and Reimbursable Costs, A-2, Staff Adjustments for Reimbursements for Fiscal Year Ending 6/30/2002, and A-3, Staff's Reconciliation of Costs in Excess of the Commission Order #2002-395.

**Q. Would you address the continuing change taking place in the accounting system of Chem Nuclear as it relates to its books and records?**

A. Yes I will. For several years the Company has been studying the change in accounting on the financial records of the Company. In its original Order to the Company, the Commission approved the use of the JD Edwards system of accounts for use by Chem Nuclear. Presently, the Company is switching over to a new system of accounts known as the Cost Point System. The switch over, as of Staff's on site audit, was still in process. Staff was informed that the final switch would take place at some date in the spring of 2003.

The Staff has developed two (2) exhibits for this hearing to allow the Commission to have a "map" of how the old system, JD Edwards, will be shown in Cost Point presentation, the new system. These are detailed in Staff Exhibit AAA, Operating Experience for Allowed Costs in Cost Point Presentation-With OEP Plan, Exhibit

AAA-1, Operating Experience for Allowed Costs in Cost Point Presentation-Without OEP Plan. Both exhibits are "marked" as Information Only. There will be a few minor differences in how the Staff is presenting some of the costs. A few of the accounts will be shown in more than one place, but in order to keep the presentation as simple as possible, the Staff chose to ignore these minor differences in its exhibits.

As a result of the Staff's review, which has not studied the final change over to full Cost Point, it would be my suggestion that the Commission not authorize the switch in this upcoming Order, but instead allow the Staff an opportunity to study the final change at some point in the spring of 2003 and allow the staff the opportunity to report back to the Commission on its findings as they relate to the new Cost Point System and its use by the Company in the future. It would be the Staff's opinion that an additional Order could be issued at that time authorizing the new accounting system used by Chem Nuclear for reporting the Company's actual operations as of June 30, 2003.

**Q. Have you found any area of the new Cost Point System that gives you concerns at this point of your review?**

A. No, I cannot say I have. In fact, it is my opinion that once the new system is fully operational, it will be a much better system for presenting financial operations than the presently ordered JD Edwards system. However, it is my opinion that full authorization should be withheld until the Staff has an opportunity to review the final change to the new system of accounts.

**Q. Would you now discuss the Staff's proposed costs for the fiscal year ending June 30, 2003?**

The Staff has reviewed the records of the Company in order to determine costs for the period ending 2003. I will discuss each account by account number and give my recommendations as to the proper amount of costs to allow for the upcoming fiscal year:

**Account #5111, Direct Exempt Labor, Account #5112, Direct Non-exempt Labor, Account #6111, Indirect Exempt Labor, and Account #6112, Indirect Non-exempt Labor:** The Staff is proposing a number of adjustments to these four (4) accounts based on the Staff's interpretation of the recently issued OEP Plan. The Plan speaks directly to the Company's waste dependent and semi-variable costs. These costs are both associated with labor and the associated fringe costs. The Staff did not make an in depth study of the OEP Plan but did review the study in order to determine if there were any areas of the Plan that could be incorporated in Staff's calculations for fiscal costs for June 30, 2003.

The Plan has a great deal of information pertaining to both waste dependent and semi-variable costs. The Staff is aware that for purposes of this hearing, several parties, with the exception of the Staff, have agreed to "table" the issue of the OEP Plan. No witnesses will be presented to explain how the plan was developed, how it is to be interpreted, or to offer any testimony pointing out any disagreements with the Plan.

However, the Staff is of the opinion that the Plan has been filed with the Commission and it does seem to offer for the first time an opportunity for the Staff to present some calculations which are based on an outside study of the Company's operations.

As a result of our review and interpretation of the Plan, Staff is offering several adjustments to the Commission which will allow the use of both a waste dependent per cubic foot rate and a semi-variable per cubic foot rate in the forecast of fiscal cost for the year ending June 30, 2003.

Staff is of the opinion that to refuse to make use of such a report would be in error. The results of the Plan, although not fully presented to the Commission, are before the Commission and its Staff since the Company filed the Plan subsequent to June 30, 2002.

The Staff is of the opinion that it should make use of this document for purposes of this hearing. By doing so, the Staff will allow the Commission, if it wishes, an opportunity to set per cubic foot rates. By setting per cubic foot rates for waste dependant cost and semi-variable cost the Commission would be able to determine how well such rates would perform in determining allowable costs in subsequent hearings.

With this in mind, the Staff is proposing to make a number of proposals to the Commission.

The first of such proposals will have to do with the number of full time equivalents needed by the Company in order to perform its required duties in the burying of low level nuclear waste.

The Plan, as filed, focused on three (3) levels or scenarios of operations. One being the Maximum Scenario, another the Most Likely Scenario and the last being the Minimum Scenario.

Each scenario makes use of a certain forecasted level of waste to be handled during the fiscal year. A discussion and Tables detailing these assumptions can be found in the OEP Plan on page 28 of 31, Tables 6.1.1 and 6.1.2. In addition, Appendix E-1, under Tab E of the OEP Plan details other information concerning these scenarios. The Most Likely assumption or scenario predicts 59,000 cubic feet of waste to be buried at the site during the fiscal year. Staff's review at the Company leads the Staff to believe that this level of waste may be more in line with the actual level that will be handled during the fiscal year 2003.

As a result of discussions with the Company's management, it was determined that the fiscal year ending 2003 should be very similar to that of fiscal year ending 2002. The Most Likely assumption with its predicted 59,000 cubic feet of waste would appear to be in line with the 57,000 of waste handled in fiscal year ending 2002.

The Maximum Scenario predicts a 70,000 cubic foot level which would appear to the Staff to be unreasonable when compared with the actual level of waste handled as of the six (6) months ending December 31, 2002. Using that level, the Staff estimated that the actual level of waste may be as low as 49,000 cubic feet.

Since the Staff's projections are only based on estimates by the Staff, it appears the 59,000 cubic feet of waste would be more appropriate for purposes of this hearing and my report.

In the filed Plan, under the most likely assumption, the number of full time equivalents (FTE) is set at a level of 57. This number was based on a projected number of hours per FTE at 1,800.

Staff's review of total disposal labor found that actual hours per FTE calculated by the Staff totaled 1,841. Staff's 1,841 hours are based on using total Company hours of 140,669 less paid time off hours totaling 17,300. The net of these two (2) totals 123,369.

The number of employees at June 30, 2002 totals sixty seven (67). Staff divided the net hours, 123,369 by sixty seven (67) and calculated the FTE hours at 1,841 per FTE. Using this level of hours instead of the 1,800, Staff found that the Company utilized approximately sixty and a half (60.5) FTE's during the fiscal year ending June 30, 2002. Since the Plan calls for a level of FTE's of fifty seven (57) when operating at the most likely scenario, it is the Staff's opinion that 3.5 FTE's can be eliminated for purposes of this upcoming fiscal year's operations. Using average labor cost per FTE, $39,968, the Staff calculated that ($139,888) could be eliminated from Direct Non-exempt Labor.

In addition, fringe cost associated with this level of labor will also be eliminated using the approved fringe rate of 33.4%. Fringes associated with ($139,888) of labor would total ($46,723). Labor and fringes would total ($186,611), which is the amount of cost the Staff is proposing to eliminate from 2003 operations.

A Table, Table 6.1.2, can be found in the OEP Plan on page 28 of 31. The Table details FTE requirements for years 2003 through 2009 by each of the three (3) scenarios.

Staff is also proposing to eliminate waste dependent costs for fiscal year ending June 30, 2003 and to develop a waste dependent cost rate which would be "tied" to cubic feet of waste buried.

Using the OEP Plan, the Staff calculated that waste dependent costs made up 8% of total allowed costs for reimbursement plus a 29% operating margin. Staff's allowed costs prior to any adjustments for the OEP Plan totals $5,872,209.

Using Staff's 8% rate, it was calculated that a total of $468,867 of the total of allowed costs would be assumed as waste dependent. This cost is composed of both labor and fringe costs. Staff calculated that labor comprised $351,475 of the waste dependent and fringes associated with this labor cost totaled $117,393.

Staff developed its 8% rate by using Table 5.4.1 on page 23 of 31 of the OEP Plan. In developing its rate, Staff eliminated costs such as Trench amortization and Vault costs, which have their own per cubic foot rate and reimbursable waste dependent taxes and fees prior to determining the percentage of waste dependent costs that comprise a portion of total allowable costs. These costs are not used in determining allowable costs as ordered by the Commission so the Staff is of the opinion that such costs must be eliminated prior to calculating both waste dependent and semi-variable costs percentages.

Once the Staff had calculated its waste dependent labor amount, such costs were allocated between Direct Exempt Labor and Direct Non-exempt Labor. Based on the total for each of these labor accounts, the Staff allocated 40% of waste dependent labor, ($140,590), to Exempt Labor and 60%, or ($210,885), to Non-exempt Labor.

The fringe costs associated with waste dependent labor were utilized in Staff's calculations of fringe costs, both Direct and Indirect Calculated Fringes and Indirect Allowed Fringes.

In addition, the Staff is also proposing to eliminate ($11,851) of labor costs from Direct Exempt Labor and ($11,120) of labor costs from Direct Non-exempt Labor. These two labor costs were proposed by the Staff in order to recognize the dollar amount of labor costs that represented Direct Labor less than the authorized amount in the Company's previous Order from the Commission. Such reduction in Labor for this purpose is not related to the OEP Plan.

As a result of Staff's proposed adjustments discussed above, the Staff is proposing to reduce Direct Exempt Labor, #5111, by ($152,441) and Direct Non-exempt Labor, #5112, by ($361,893).

As a result of Staff's use of the OEP Plan, the Staff is proposing two rates that will allow the Company to recover its waste dependent costs over the fiscal year as cubic feet of waste is received and buried.

Staff's waste dependent rate to recover direct labor costs totals $5.96 per cubic foot of waste buried. When fringe costs are added to labor, this factor increases to $7.95 per cubic foot of waste received and buried.

It is the Staff's opinion that this is the first step toward recognizing the affect of decreasing waste levels on the Company's labor and associated labor costs, such as fringes.

Staff is also proposing to adjust Indirect Exempt Labor and Indirect Non-exempt Labor based on information derived from the recently filed OEP Plan.

Using the OEP Plan, the Staff calculated that twenty eight percent (28%) of total allowed costs was semi-variable costs.

Described in the Plan is a method to identify how waste dependent costs can be used to determine changes in semi-variable costs. Based on information in the Plan starting on pages 23 of 31 through 26 of 31, the Staff calculated an adjustment for semi-variable costs for fiscal year 2003.

Using Step 4 on page 26 of 31, Staff determined that waste dependent costs, as defined by the Plan, decreased by 42.62%.

The Plan indicates that semi-variable costs can be assumed to have changed at a rate of 50% of the calculated decrease in waste dependent costs.

However, the Staff is not of the opinion that waste dependent costs as defined in the Plan are correct for use by the Staff.

The Plan uses four separate costs to determine waste dependent costs. Two of these costs do not relate to allowed costs and in the opinion of Staff should not be used to determine decreases or increases in waste dependent costs for purposes of determining semi-variable costs. The Staff eliminated costs associated with Atlantic Compact and PSC, Budget Control Board & State Treasurer costs and then used waste dependent and disposal vault and trench amortization costs for its determination of semi-variable.

These costs are the only costs of the four identified in the Plan that are determined by the Commission for reimbursement and in my opinion should be the only costs used in the determination of semi-variable costs.

Using the Staff's approach, the change in waste dependent costs between fiscal years 2001 and 2002 was 42.62%. Fifty percent (50%) of this cost percentage is 21.31%, the percentage used by the Staff in its determination of a semi-variable cost rate.

Total allowed costs for fiscal year 2003, as calculated by the Staff totals $5,872,209. The Staff calculated costs projected to be semi-variable by applying the 28% mentioned above to the $5,872,209 and determined that $1,627,049 was semi-variable costs for purposes of this hearing.

The Staff using the 21.31% as defined above to calculate the semi-variable projected total determined that ($346,698) was waste dependent. Of the amount, ($259,893) is related to labor costs and the remaining ($86,804) is fringe costs associated with labor.

Staff used a 75%/25% split in allocating the ($259,893) between exempt and non-exempt labor. ($194,920) is determined to be Indirect Exempt Labor and the remaining ($64,973) is Indirect Non-exempt Labor.

As a result of Staff's calculations, the Staff is proposing to reduce both indirect labor accounts by the amounts shown above.

In addition, the Staff is of the opinion that future costs associated with the hearings before the Commission should be far less than the $100,343 spent in the hearings to review fiscal 2001 operations and to set fiscal 2002 authorized costs.

The Staff realizes that there will be costs, but is unable to make a determination of such amount. Due to this fact, Staff is proposing to eliminate the entire ($100,343) from Indirect Exempt Labor in setting authorized costs for fiscal 2003. Any excess costs to exempt indirect labor that results from hearing costs before the Commission can be reviewed next year by the Staff and any cost approval on such costs can be determined by the Commission as a result of evidence presented in the hearing resulting from the 2003 filing of actual costs of Chem Nuclear.

As a result of the Staff's review of semi-variable costs and costs associated with hearings before the Commission and other parties, the Staff is proposing to reduce Indirect Exempt Labor by ($295,263) and Indirect Non-exempt Labor by ($64,973).

Fringes will be adjusted taking into consideration these adjustments to labor costs.

Using these costs as determined using the OEP Plan, the Staff is proposing to establish a semi-variable rate based on cubic feet of waste received and buried during the fiscal year ending June 2003. Staff's semi-variable rate per cubic foot of waste was determined to be $5.88. Of this rate, $4.40 per cubic foot of waste represents labor costs and the remaining $1.48 is associated with fringe costs.

Using this semi-variable rate will allow the company to recover labor and fringe costs determined by the Staff to be semi-variable in nature as defined in the OEP Plan.

If, however, the Commission is of the opinion that the OEP Plan should not be used to determine semi-variable rates, the Staff would propose different adjustments based on the review done by the Staff on the books and records of the Company.

These adjustments would be a decrease in Indirect Exempt Labor totaling ($352) and an increase in Indirect Non-exempt Labor totaling $16,011.

These two (2) proposed adjustments are not being proposed based on the OEP Plan but were determined based on the Staff's review of costs during the fiscal year ending June 30, 2002 and the trends noted during the first five (5) months of actual operations during fiscal year ending operations for June 30, 2003.

Also making up the proposed adjustment of ($352) to Indirect Exempt Labor is the effect of the ($100,343) associated with Hearing costs which was discussed above in my testimony.

**Account #5312, Direct Temporary Labor Costs:** Temporary Labor decreased in a material amount during fiscal year ending June 30, 2002. The Commission had set a level of temporary labor costs at $57,600 in its previous Order, #2002-395.

As a result of not handling its expected amount of cubic feet of waste during the fiscal year, temporary labor was considerable less than predicted by either the Staff or Company during fiscal year 2002.

The Staff has reviewed both 2002 operations and five (5) months of actual costs for fiscal year 2003 and is of the opinion that temporary labor will continue to be less than in previous years of operations at Chem Nuclear.

In the Staff's opinion, an adjustment to costs for this account is warranted since the expected level of cubic feet of waste appears to be similar to that received and buried in fiscal year June 30, 2002.

Staff is proposing to reduce the previous authorized amount by making an adjustment of ($53,950). This proposed adjustment will reduce 2003 authorized cost to a level equaling $3,650.

**Accounts #5119, Direct Overtime and #6119, Indirect Overtime:** Staff's review of these two accounts resulted in the Staff proposing to adjust Direct Overtime while not recommending any adjustment to Indirect Overtime. The Company's direct overtime authorized amount had been set at $57,752 by the Commission in Order #2002-395. During fiscal year ending June 2002, the Company's actual costs for this account were far less than the amount set.

Current operations tend to lead the Staff to be of the opinion that the amount authorized should be reduced for future operations in 2002/2003.

Staff is proposing to reduce the amount previously set, $57,752, by ($20,072). As a result of this proposed Staff adjustment, the proposed amount to be allowed for reimbursement would be $37,680.

Indirect Overtime cost was actually in line with the amount of costs set by the Commission in the previous order. Staff is of the opinion that such allowed costs should remain at the present level of costs set by the Commission in Order #2002-395 and therefore does not propose any adjustment to Indirect Overtime. The authorized amount would continue to remain at $1,030 for the fiscal period ending June 30, 2003.

**Accounts #5132, 5134 and 5135, Equipment:** As was the case in the previous hearing, Chem Nuclear experienced a reduction in costs associated with rental equipment during the fiscal year ending June 30, 2002. Staff's review of this cost indicates that a reduction in allowed costs is needed.

Staff's review of the fiscal year's operations and the five (5) months of actual cost associated with fiscal year 2003 leads the Staff to propose an adjustment to reduce equipment costs for the upcoming fiscal year ending 2003. Staff is proposing to make an adjustment for ($38,250).

Authorized costs for fiscal year ending June 2002 were set in Order #2002-395 at $269,280. Staff's proposed adjustment will reduce these costs to $231,030.

**Account #5142, 5143 and 5145, Materials:** The Commission Staff has performed a review of the costs associated with Materials for the fiscal year ending June 30, 2002 and has also reviewed five (5) months of operations for fiscal year ending June 2003.

Based on the Staff's review of such costs, the Staff is proposing to reduce allowed costs with an adjustment totaling ($31,450).

Costs for Materials can vary due to the mix of waste received during the year. This difference in mixes of waste led to lower costs for June 2002. This reduction in Material costs is expected to continue as waste levels continue to decrease.

As a result of Staff's proposed adjustment of ($31,450), proposed authorized Material costs for fiscal 2003 are projected to be $38,006.

**Account #5151, Affiliated:** Affiliated costs are comprised of costs for labor, fringes and supplies charged to Business Unit #119, safety.

These costs have increased since they were set in the Commission's previous Order #2002-395. Cost increases were traced to the hiring of a new employee to replace another employee who was no longer employed at Chem

Nuclear. Differences in their pay have contributed to most of the increase in costs.

Staff is proposing to increase the amount set for this account. This increase totals $10,468. The proposed increase will set Affiliated costs at $82,828 for the fiscal year ending June 30, 2003.

**Account #5152, Contract Costs:** Costs associated with this account during fiscal year June 2002 were higher than expected. Such costs were $43,113 greater than the costs set in Order #2002-395.

Most of this excess cost was due to work required by the Department of Health and Environmental Control (DHEC). Much of the costs will not be recurring costs.

The Staff has reviewed the costs associated with this account and has found it necessary to propose an adjustment to increase the amount to be set for fiscal year June 2003.

It appears to Staff that Contract Costs were understated in the previous years and are in need of an increase in order to allow the Company enough funds to meet these types of costs.

Staff is proposing to increase the account by proposing an adjustment totaling $21,796. This Staff adjustment will increase the amount set for June 2003 to a level equaling $142,000.

**Account #5156, Maintenance:** In its previous Order #2002-395, the Commission set Maintenance Costs at $28,656. Repair costs have not been at a level that would meet this authorized amount.

Staff's review of both the fiscal year ending June 2002 and the first five (5) months of fiscal year 2003 indicate that a reduction is needed for Maintenance. Staff is proposing to reduce these costs by ($9,325). This proposed adjustment will decrease the amount set for 2002, $28,656, to $19,331.

**Account #5157, Laundry Services:** Present costs for Laundry Services is running at a level below that set in the Commission prior Order #2002-395.

Costs incurred during fiscal year ending June 2002 were also below that set by the Commission.

Based on the results of Staff's review of these costs, the Staff is proposing to reduce this account by ($1,765).

This Staff adjustment will reduce the amount set in 2002, $6,720 to $4,955.

**Accounts #5171, 5172 and 5174, Travel:** Direct travel costs were below the amount set for fiscal year 2002. The Staff's review of both the fiscal years activity and the first five months of fiscal year 2003 tend to support the need for a reduction in these costs.

Travel expense appears to be decreasing and so are the costs associated with such travel. The Staff is proposing to reduce travel costs allowed for fiscal year 2003 by ($4,930).

This proposed adjustment will reduce travel costs from $9,540 to $4,610.

**Account #5175, Other Direct Costs:** These costs were below that level set for the Company in fiscal year 2002 and the trend is continuing into fiscal year 2003. Staff's review indicates that Other Direct Costs should be less in fiscal year 2003 than that set for 2002. Staff is proposing to reduce such costs by ($10,460) thereby setting fiscal 2003 costs level at $49,156.

**Accounts #5191 and 5192, Federal Express and Postage:** The Staff review indicates that this cost was set too low in the previous hearing.

Costs associated with Federal Express and Postage have risen about 60%. This occurred in the fiscal year 2002 and is continuing to be stable at a level greater than that set by the Commission in Order #2002-395.

Staff is of the opinion that an adjustment is required to set this cost at a more realistic level. Staff is proposing to increase such costs by $1,560.

This Staff proposed adjustment will set Federal Express and Postage at $4,212 for fiscal year ending June 2003.

**Accounts 5249, 6149 and 6120, Direct Calculated Fringe, Indirect Calculated Fringe and Indirect Allowed Fringe:**

In the previous hearing before the Commission, a level of direct fringes was set by the Commission using the fringe rate established in the Company's first hearing. That rate is 33.4%. Staff has continued to use this rate and will do so in this case.

For **Direct Fringe Calculation, (#5249)** the Staff proposes to adjust fringes using Direct Exempt Labor costs totaling $419,203, Direct Non-exempt Labor of $484,779, and Direct Overtime totaling $37,680. These labor costs have been adjusted for the Company's OEP Plan and reflect Staff's proposed adjustments for elimination of 3.5 FTE's, and the establishment of waste dependent cost rates which reduced both direct exempt and non-exempt labor.

In addition one other adjustment was made both to direct exempt and non-exempt labor to reduce the amount of labor established in the previous hearing. Total labor used by the Staff for calculating Direct Calculated Fringe costs was $941,662. Staff used the approved fringe rate of 33.4% to calculate direct fringes to be $314,515.

In Order #2002-395, the Commission ordered a level of fringe costs equal to $493,006. Staff is proposing to deduct ($178,491) and lower the level of allowed fringe costs to $314,515.

The waste dependent cost rates established by the Staff using the OEP Plan as a guide, will allow the Company to recover $1.99 per cubic foot of waste received and buried during the fiscal year. This rate is a part of the waste dependent rate of $7.95 per cubic foot of waste.

If the Commission is of the opinion that the OEP Plan should not be recognized for this proceeding, then the Staff would propose a different adjustment to the Company's fiscal 2003 costs associated with Direct Calculated Fringes.

For direct fringe calculation made without use of the OEP Plan, the Staff proposes to adjust fringes using Direct Exempt Labor costs totaling $559,793, Direct Non-exempt Labor of $835,552, and Direct Overtime totaling $37,680. These labor costs total $1,433,025.

Using the approved fringe rate of 33.4%, Staff would calculate direct fringe costs totaling $478,630. Using this amount of fringe cost for direct fringes, Staff would propose a reduction to direct fringes of ($14,376).

This Staff adjustment would not recognize any of the OEP Plan adjustments but would recognize Staff's adjustments to Direct Exempt Labor for ($11,851) and Direct Non-exempt Labor for ($11,120). These two adjustments recognize the reduction in labor costs that occurred in fiscal year 2002.

For **Indirect Calculated Fringe (#6149),** the Staff calculated the annual amount of fringe costs associated with this contra account. The account discloses all fringe costs that should be shown as direct fringes, fringes on labor charged to others and the effect of labor charged from others. The normal balance for this account is a negative amount.

Staff used direct labor associated with account #5111, ($419,203), account #5112, ($484,779), and account #5119, ($37,680). These labor costs total ($941,662). Added to this amount was labor charged to others, ($324,760). Deducted from these labor costs prior to calculating this fringe account amount was indirect labor charged from others $43,573. Total labor costs used for the contra fringe calculation totaled ($1,222,849).

Using the approved fringe rate of 33.4%, the Staff calculated a contra amount for this account totaling ($408,432).

In its previous Order, the Commission had set this account's approved amount at ($538,914). The Staff is proposing to make an adjustment of $130,482 to reduce the 2002 approved amount to a level totaling ($408,432). Such proposed Staff adjustment under this scenario is shown in proposed Staff adjustment #23 as using OEP Plan.

As is the case with a number of other adjustments, the Staff's aforementioned adjustments reflect use by the Staff of the OEP Plan filed by the Company.

If the Commission is of the opinion that such Plan should not be used by the Staff for purposes of forecasting 2003 levels of costs, the Staff is also proposing adjustments which would be necessary if the Plan was not used.

Under this scenario, Staff would use labor totaling ($1,714,212) in determining the amount of contra fringes for this account. This amount of labor would be comprised of ($1,433,025) in Direct Labor, ($324,760) in labor charged to others and $43,573 in indirect labor charged from others.

Using the approved fringe rate of 33.4%, Staff calculated an amount equal to ($572,547). This would result in an adjustment by the Staff equaling ($33,633). Staff adjustment #23 reflects this proposed adjustment shown as without use of OEP Plan.

Staff is also adjusting **Indirect Allowed Fringes, #6120.** The Staff, making use of the OEP Plan, is proposing to adjust this account, in Staff adjustment #24, by a reduction in allowed fringe costs of ($220,819).

Total labor used by the Staff in proposing this adjustment totaled $1,765,678. Such amount is comprised of Direct Labor, $941,662, Indirect Labor, $599,723, labor charged others, $324,760 and labor charged from others, ($100,467).

Using the fringe rate approved by the Commission, 33.4%, Staff calculated fringe costs totaling $589,737. Staff then added an additional $128,966, non-chargeable fringes, to this amount. Total fringe costs for Indirect Allowed Fringes as calculated by the Staff totals $718,703.

In it previous Order, #2002-395, the Commission set this cost at $939,522. In order to reduce fringes to the Staff level, the Staff is proposing an adjustment of ($220,819), adjustment #24.

However, as was the case in the other two fringe adjustments made by the Staff, the Staff also is detailing fringe costs if the Commission determines the OEP Plan should not be utilized for purposes of setting Indirect Allowed Fringe costs.

In such a case, total labor used by the Staff in determining fringe costs totals $2,516,935. This total is comprised of $1,433,025 for Direct Labor, $859,617 for Indirect Labor, $324,760 for labor charged others and $($100,467) for labor charged by others. The approved rate of 33.4% results in fringe costs totaling

$840,656. Added to this amount are the non-chargeable fringe costs of $128,966 resulting in a total proposed allowed fringe costs of $969,622.

In order for Staff to adjust the previous allowed costs of $939,522 to the amount calculated by the Staff, an increase of $30,100 would be needed. Such adjustment is also detailed in Staff adjustment #24.

**R&M Equipment Maintenance (#5303 and #5304).** The Company had felt there would be an increase in this account for the fiscal year ending June 30, 2003. Reasons for such an increase were based on the age of presently used equipment. It was felt that more maintenance would be necessary in order to keep such equipment operating. Staff's review of the last six (6) months of fiscal year ending June 30, 2002 and the first quarter of fiscal year ending June 30, 2003 seem to indicate just the opposite thing is occurring.

Using current operating experience as a guide, the Staff is proposing to reduce the presently authorized amount for this account, $96,048, to a level equaling $62,460. In order to make this proposed reduction, the Staff is proposing to make an adjustment of ($33,588) in Staff adjustment #15.

**Capitalized Cost, (#5310).** Staff is proposing to reduce this contra account. This account is used to record costs that are being capitalized by the Company. The normal balance in the account is a credit or negative amount of dollars.

In the previous Commission Order #2002-395, the account balance was set at ($32,284). Current activity in this account indicates that a lesser amount of contra costs is needed for fiscal year ending June 30, 2003.

Staff has reviewed the 2002 fiscal year operations and actual operations for five months of fiscal year 2003 and has determined that an adjustment of $13,524 is necessary in order to reach the expected level of contra costs totaling ($18,760). This adjustment is shown in Staff Exhibit AA-3 as adjustment #16.

**Project Costs, (#5317).** This account's actual costs for fiscal year ending June 30, 2002 was less than the amount authorized by the Commission in the last Order issued in the setting of approved costs, Order #2002-395.

The Staff has reviewed the current activity in the account for fiscal year 2003 as well as the activity which took place during fiscal year ending 2002.

Staff is of the opinion that a reduction in this account is needed and is proposing to reduce the previously authorized amount by ($23,832). Such proposed adjustment is detailed in Staff Exhibit AA-3 as adjustment #17.

The result of Staff's proposed adjustment would reduce the current amount authorized, $72,648, to $48,816.

**Insurance Premiums, (#5319).** Insurance is one of the costs in which the Staff has determined an increase of a material amount is needed.

The Staff has reviewed invoices for insurance costs in the up coming fiscal year and has found that all of the insurance premiums are increasing for the fiscal year. The present unrest in our nation since September 11 has been having an affect on insurance costs, especially in those industries that have high risk, in which Chem Nuclear is clearly one of those.

The Staff examined the Company's corporate insurance and found that there is at least a thirty percent (30%) increase in the costs being charged for insurance in the upcoming fiscal year. Costs went from a level of $324,236 on an annual basis to a level of $421,506. Adding to that is the pollution legal liability insurance which is at $142,080. This insurance policy is renewable with a ten (10) term. For purposes of this case, such costs are being amortized over an eight (8) year period in order to coincide with the period of time specified in legislation.

The increase in insurance costs for Corporate Insurance and the annual amortized amount of insurance premiums totals $563,586 which is $111,046 above the amount authorized by the Commission in its last Order, 2002-395.

In addition, the Staff reviewed the allocation methods used by the Company and has found in all cases the previously used methods are still in use and it is the Staff's opinion that these methods are adequate for this purpose.

All indications are that these costs could continue to increase in the upcoming years. Insurance premium costs are difficult to predict in today's market and may remain so for the future.

Staff proposes to adjust insurance costs by increasing the present authorized amount of $452,540 to the level shown above, $563,586. In order to make this increase, the Staff is proposing in adjustment #18 to increase these costs by $111,046. The details behind this adjustment can be found in Staff's Exhibit AA-3.

**Site Labor Allocation, (#5832).** The Staff reviewed the contra account and found that the amount that was authorized in Order #2002-395 appears to be set at a level higher than will be necessary for fiscal year 2003.

In fiscal year ending 2002, the Company was authorized ($49,740) for Site Labor Allocation. Actual amounts charged to this account totaled ($11,448). The Staff's review of the account found that the amount set in 2002 is greater than is needed for fiscal year end 2003 but may be some what greater than the amount actual realized during fiscal year end 2002.

Currently, the Company's records indicate that a 50% reduction would be in order. The Staff is proposing to reduce the contra amount set in 2002 by $24,870, leaving a level set at the same amount, ($24,870). This Staff adjustment is shown in Exhibit AA-3 as adjustment #19.

**Labor Allocation (#6117).** This account normally is a credit or contra account. The account is used by the Company to allocate 100% of business Unit #119, Safety, labor and fringes, of which 70% is allocated to disposal operations through account #5151, Affiliated Cost. Additionally, the Company also allocates 30% of fringes and labor for business unit #487, support services, to non-Barnwell operations. Allocations are calculated on head count.

In the fiscal year 2002, the Company's contra amount recorded in this account was in excess of the amount authorized by the Commission's prior Order #2002-395. The Staff has reviewed the fiscal year ending 6-30-2002 and the first five (5) months of actual operations of fiscal year ending June 30, 2003 and is of the opinion that the amount authorized for this account needs to be increased.

As a part of the Staff's adjustment, a correction was made to the Company's records to correct a fringe rate used by Chem Nuclear in its calculation of this account. Taking into consideration both the correction and the results of Staff's review of fiscal year 2002 operations and the first five (5) months of operations for fiscal year 2003, the Staff is proposing to increase Labor Allocation by ($2,907) in Staff adjustment #22. This proposed adjustment would increase the current authorized amount from ($127,500) to ($130,407).

**Travel Expense, (#7100).** This indirect account is used by the Company to record cost associated with travel for meetings, conferences and seminars.

Staff performed a review of the actual activity for fiscal year 2002 and the first five (5) months of activity for fiscal year ending June 2003. The cost associated with this account appears to be somewhat less than the amount authorized by the Commission in its last Order #2002-395.

It is the opinion of the Staff, based on its review, to propose a reduction in the allowed amount for June 2003. Such reduction of ($2,436) detailed in Staff adjustment #25, would reduce the currently authorized amount of $56,436 to $54,000.

**Employee Cost, #7200.** The Company records costs associated with training programs and tuition costs for employees to attend training programs.

In addition, the account is used to record costs associated with re-locating employees.

During fiscal year ending 2002, the Company reported costs in excess of the amount authorized by the Commission. Such excess was for the most part due to some $20,000 expended to re-locate two (2) employees that were hired during the fiscal year.

The costs for this account, based on the Staff's review of fiscal year ending 2002 and first five (5) months of fiscal year 2003, appears to be stable and it is the Staff's opinion that no adjustment to the currently authorized amount of $72,456 is necessary.

**Office Supplies and Expenses, #7300.** In fiscal year ending June 2002, the Company expensed an amount less than that authorized by the Commission in its prior Order which set authorized costs, #2002-395.

The Staff reviewed seventeen months of actual costs associated with this account, and is of the opinion that a reduction is needed. Current expenditures are less than the amount authorized when annualized.

The Staff is proposing to reduce the currently authorized amount of $122,088 to $93,101. In order to make this reduction, the Staff is proposing an adjustment of ($28,987), which is detailed in Staff Exhibit AA-3 as adjustment #26.

**Building and Utilities, #7400.** The Company accumulates costs associated with utilities, telephone service, custodial services and trash pickup in this account.

Business unit #487, support services, is used to accumulate the costs. Seventy percent (70%) of the total of this business unit is allocated to disposal operations and the remaining thirty percent (30%) is allocated to other divisions through the use of account #7403, building rent. Building rent is a contra account which would normally have a negative or credit balance. Staff's review of the fiscal year ending operations for 2002 and partial activity for fiscal year ending 2003 indicate that increasing costs for telephone service is causing this account to exceed the authorized amount set in Order #2002-395.

As a result of the Staff's investigation of these costs, Staff is proposing in adjustment #27 to increase the authorized amount by $4,949. This proposed adjustment would increase the currently authorized amount of $134,244 to $139,193.

**Services, #7500.** This account is used to record expenses relating to consultant fees, legal costs, maintenance agreements for equipment and medical costs for employee physicals.

Costs in 2002 were in excess of $289,000 of the authorized amount. Such excess costs were associated with legal and consultant fees paid during the fiscal year ending 2002. The vast majority of such costs, $247,397, were associated with the OEP Plan performed as a result of Commission's Orders. A lesser amount, $42,339, was associated with consultant and legal fees paid by the Company in defending its position on Operating Rights in the last hearing before the Commission.

As a result of Staff's audit of this account, several adjustments were proposed to correct a posting error of $7,500 and an out of period adjustment of $7,500.

In addition, the Staff eliminated $13,286 in legal fees as a result of the cancellation of the Company's contract with the legal firm during fiscal year 2002.

It is the Staff's opinion that costs associated with Operating Rights, $42,339, and the OEP Plan, $247,397, will not be recurring during fiscal year ending 2003.

As a result of these items not recurring and the other corrections, the Staff is of the opinion that a reduction to the authorized amount should be recognized and is proposing to reduce the authorized costs by ($28,455). Such reduction is detailed in Staff Exhibit

AA-3 as adjustment #28. This adjustment will reduce the authorized amount of $253,133 to $224,676.

**Equipment, #7600.** This cost is related to expenses such as radiation detection instrument repair and maintenance, purchases of microfilm, development cost of microfilm and outside repair of small equipment and vehicles.

Actually, this cost was at a level that was close to the amount authorized by the Commission in Order #2002-395. However, as a result of the Staff's review of the Company's books and records, an adjustment for ($200) is being proposed by the Staff.

This is based on Staff's opinion that this cost is declining and may continue to do so in the future.

As a result of this proposed adjustment, #29, authorized costs of $85,524 will be reduced to $85,324.

**Depreciation Expense, #7700.** In both of the previous cases involving Chem Nuclear, the Staff has proposed a level of depreciation based on asset cost, asset lives and the use of the straight line method of calculating depreciation expense.

At June 30, 2001, the Company produced an asset breakdown for its assets, with expected life of each class of asset and current level of depreciation at that point in time.

The Staff, using that information, calculated depreciation for both the fiscal years ending June 2001 and 2002. Staff is proposing to use the same information to calculate depreciation for the fiscal year end 2003.

As a result of this information, the Staff, in adjustment #30, is proposing to reduce the currently authorized amount of $403,700 to $303,274.

In order to make this reduction, the Staff is proposing an adjustment of ($100,426). This proposed adjustment is detailed in Staff Exhibit AA-3.

In addition, the Staff eliminated any assets from the depreciation calculation if they were presently fully depreciated as of June 30, 2002.

As a result of this elimination of assets fully depreciated, the Staff found that $298,772 of the Company's assets was fully depreciated and this cost was eliminated for purposes of calculating depreciation for fiscal year end 2003.

**Management Fees and General and Administrative Allocations, #7904.** As a part of the Staff's initial review of Chem Nuclear, a very detailed study was performed by the Staff to determine the method and manner being employed by the Company to allocate cost to disposal operations from other outside work centers.

The disposal operation receives allocated costs from Columbia, South Carolina, Lakewood, Colorado and Columbia, Maryland.

Allocations from Columbia, South Carolina are associated with office services, regulatory affairs, collections, information systems and purchasing.

Lakewood, Colorado allocates expenses such as accounts payable, payroll and financial computer services. Additionally, Lakewood allocates office expense to the Barnwell disposal operations.

The Columbia, Maryland office allocates costs such as corporate management, investor relations, treasury and finance, human resources, accounting, information systems and environmental safety and health cost.

The Staff reviewed each of these allocations centers to determine if the costs being allocated are allowable costs.

One account the Staff had to adjust was fringe cost. As in previous years, the Company made use of a factor different than the 33.4% authorized factor. The Staff, as in the previous year, has adjusted for this difference in fringe rate.

As a result of the Staff's review, it was found that Chem Nuclear is still being allocated general and administrative expenses from each of the three (3) locations described above and with the exception of two (2) expenses; all are being allocated in a manner similar to the method used in prior years and approved by the Commission.

Currently, the Columbia, Maryland office has changed the method of allocating Human Resources. Such costs are currently being allocated using number of employees as the base for making the allocation.

In previous years, the total cost method was used to allocate such costs to Chem Nuclear.

For fiscal year 2003, the Maryland office switched to using the number of employees as the method to perform this allocation.

However, it should be noted, the Company has informed the staff that it will be switching back to the former method of allocating such costs after the fiscal year end 2003.

Normally, the Staff would have a problem with this inconsistency in allocating, but Staff's review of these methods indicates that there is no material difference in the amount being allocated.

The Company stated it had found the new method was more difficult to perform than the older method and that is the reason for the switch back to the total cost method.

Another method that is being changed for fiscal year ending 2003 is allocation of information systems costs. The company will now allocate such cost based on the number of computer users. The Staff has no problem with this change in allocation method.

In addition, the Staff does not recommend any changes in the present methods being used by the Companies for allocating costs to disposal operations in Barnwell. Current accruals of costs to Barnwell operations total $651,235.

In order to reflect this amount for purposes of setting authorized costs for fiscal year 2003, the Staff is proposing an adjustment to this account. The currently approved amount of costs authorized by the Commission is $662,402. Staff is proposing adjustment #31 which is detailed in Staff Exhibit AA-3, to reduce the current amount from $662,402 to $651,235. The amount of reduction calculated by the Staff is ($11,167).

**Barnwell Rights, #9308.** In its previous Order #2002-395, the Commission approved the recovery of $625,000 annually for costs associated with Operating Rights. Such Order, though allowing recovery of the costs, specifies that no operating margin treatment is to be allowed on Operating Rights. Due to this ruling, the Staff is proposing to eliminate the Operating Rights amount of $625,000 and properly show such costs as reimbursable only. Staff adjustment #32, detailed in Staff Exhibit AA-3, explains this adjustment and why the Staff is of the opinion it should be made.

**Staff Adjustments #33 and #34 to book for information purposes only the effect of waste dependent and semi-variable costs.** In these two (2) Staff adjustments, the Staff is detailing the affect of using the "most likely" assumption of 59,000 cubic feet of waste and the related costs associated with these 59,000 cubic feet of waste when the cost rates of waste dependent cost, $7.95, is applied to the 59,000 cubic feet resulting in costs to be reimbursed with 29% totaling $468,867 and semi-variable cost rate of $5.88 per cubic feet being applied to the same 59,000 cubic feet totaling $346,698. Both of these costs would be allowed for operating margin treatment of 29%.

It must be remembered that these cost amounts are only for information purposes in order that the Commission will be allowed to know the full affect of the Staff's calculated waste dependent and semi-variable rates when applied to the cubic feet of waste received and buried during the fiscal year ending June 30, 2003. The Staff in no way is implying that such costs, $468,867 and $346,698, are to be allowed for reimbursement.

If the Commission approves of the Staff's use of the Company's OEP Plan as filed, then the rates for waste dependent costs, $7.95 per cubic foot of waste, and semi-variable costs, $5.88 per cubic foot of waste, would be amounts approved by the Commission of fiscal year ending June 30, 2003.

Q **Would you summarize the results of Staff's proposed adjustments as they relate to allowed cost for the fiscal year ending June 30, 2003?**

A. Yes, I will. The Commission Staff proposed adjustments one (#1) through adjustment nineteen (#19) in adjusting direct cost. In its previous Order, the Commission set direct cost at $3,204,370. The net of Staff's proposed adjustments associated with direct cost totaled ($737,183) when taking into consideration Staff's use of the OEP Plan in making proposed adjustments for fiscal year 2003. The effect of these nineteen (19) adjustments decreased the prior approved direct cost amount of $3,204,370 to $2,467,187. Also, in its last Order, the Commission approved a level of indirect cost totaling $3,532,047.

As a result of Staff's review of the Company's books and records, the Staff proposed adjustments twenty (#20) through thirty-two (#32). These thirteen (13) proposed adjustments had the affect of reducing indirect cost by a total of ($1,129,201) when taking into consideration the OEP Plan. The effect of this proposed decrease resulted in a decrease in the prior approved indirect cost of $3,532,047 to $2,402,846.

As a result of Staff's thirty-two (32) proposed adjustments, the Staff is proposing to reduce the approved amount of fixed cost from $6,736,417 to $4,870,033 when taking into consideration Staff's use of the recently filed OEP Plan.

It also should be noted that in Staff's discussion of Direct and Indirect Labor, beginning on page 19, line 11, of my testimony, the Staff has proposed rates which will allow the Company to recover waste dependent and semi-variable costs based on a per cubic foot of waste received and buried during the fiscal year 2003. Such rates are $7.95 per cubic foot for waste dependent costs and $5.88 per cubic foot for semi-variable costs. These rates and the method used to develop them is discussed in my testimony starting on page 23, line 20 and going through page 28, line 14.

Staff has also presented thirty two (32) proposed adjustments for consideration by the Commission in which the Staff did not make use of the OEP Plan when determining its adjustments.

As stated above, the Staff proposed nineteen (19) adjustments to Direct Costs. When not including the affect of the OEP Plan, Staff's proposed adjustments to Direct Costs totaled ($81,705). When such reduction is netted against the prior approved Direct Cost of $3,204,370, Direct Cost proposed for approval by the Staff without using the OEP Plan is $3,122,665.

Also, the Staff proposed thirteen (13) adjustments to Indirect Costs without using the OEP Plan to calculate the proposed adjustments to Indirect Costs. Such proposed adjustments totaled a reduction of ($782,503). The Commission had approved allowed Indirect Cost totaling $3,532,047. Reducing such approved amount of Indirect Costs by the total of ($782,503) will result in proposed Indirect Costs, not utilizing the OEP Plan, of $2,749,544.

Total Staff adjustments proposed without the use of the OEP Plan are ($864,208). Reducing total allowed costs, $6,736,417, as approved in the prior hearing by the ($864,208), results in a total proposed allowed costs for fiscal year 2003 totaling $5,872,209.

Due to the fact the OEP Plan was not utilized in developing the costs detailed starting on page 57, line 2, no rates per cubic foot were developed for waste dependent costs and semi-variable costs.

**Q. Does this conclude your discussion of the Staff's proposed adjustments for the allowed cost for fiscal year ending June 30, 2003?**

**A.** Yes it does.

**Q. Would you now discuss the variable cost rates associated with the various classes of waste, vault cost and trench amortization expense?**

A. The Staff has reviewed the records associated with variable cost. In the preceding audit, Staff's analysis revealed the Applicant incurs costs for different types of vaults (cylindrical, rectangular, slit, etc.) that can be used within one type of trench with varying cubic feet related to each type of vault. Additionally, different classes of waste (A,B,C,etc.) can be buried within one type of trench. For these and other reasons, it was very difficult for the Staff in the previous hearing to project with accuracy the expected variable costs of the Applicant. This difficulty occurs not only due to volume of the waste received but, also, due to the class type of waste received.

As a result of Staff's findings in the original hearing, Staff recommended to the Applicant the implementation of a method which would track variable cost by class of waste, vault type and trench type used to bury the waste.

The Company had available a database which could be used to perform this task but at the time of the last audit, did not have a report that would consolidate the available information into a usable document for costing waste by class.

After Staff's request for such a report, the Applicant designed a program, which would take the available database and develop a report, which could be used by Staff in its review of variable cost by class of waste. Using the report, the Staff developed an audit program, which was used by the Staff to perform an audit of variable cost. Staff's audit found the report was accurate and reporting the necessary information required to more accurately report variable cost by class of waste.

I will now discuss variable cost breaking down the cost by trench:

1. **Trench #86:** Staff's review found the Company had received **31,882 cubic feet of waste**, which was buried in trench #86 during the fiscal year. Of the 31,882 cubic feet, **27,550 cubic feet was class A waste, 1,663 cubic feet was class B and 2,669 cubic feet was class C.**

Total cost associated with the 31,882 cubic feet of waste was $750,533, which was made up of $708,125 in vault cost and $42,408 in trench amortization expense. Of the above vault cost, $324,750 resulted from the use of cylindrical vaults and $334,642 related to rectangular vaults, and $48,733 related to special CDRM vaults.

Cumulative trench construction cost as of June 2002 was $1,186,157. The amortization rate per vault was $228.00 during the fiscal year. This rate varies due to trench construction cost and estimated remaining capacity in the trench.

The unamortized trench construction cost at June 30, 2002, for trench #86 totals $16,080.

The total number of vaults placed in trench #86 during the fiscal year totaled 186 vaults.

The accumulated number of vaults in trench #86 as of June 30, 2002 totals 3,690.

During the year ending June 30, 2002, the Applicant capitalized $24,800 in labor and other cost to trench #86.

Staff was able to breakdown the $750,533 cost by class of waste. Class A waste cost was $648,538, class B waste cost was $39,157 and class C waste was $62,838.

The cubic foot cost of waste using the total cubic feet of 31,882 and total cost of $750,533 was $23.54 per cubic foot for trench #86.

2. **Trench #93:** The total cubic feet of waste received in fiscal year 2002 totaled 25,249 for trench #93. This total was made up of 7,473 cubic feet of class A waste, 10,407 cubic feet of class B waste and 7,370 cubic feet of class C waste.

Total cost associated with this trench totaled $614,507. This total is made up of $537,786 in vault cost and $76,721 in trench amortization expense. Of the above vault cost, all of the $537,786 was related to cylindrical vaults.

In fiscal year ending June 2002, Chem Nuclear capitalized a total of $6,251 of labor and other cost to trench #93. Cumulative trench construction cost as of June 2002 was $176,803.

The amortization rate per vault varied from $371.78 for 3 months ending September 30, 2001 to $370.33 for the remaining of the fiscal year ending June 2002. Amortization rates will vary due to trench construction cost and estimated remaining capacity in the trench.

The unamortized trench construction cost at June 30, 2002 for trench #93 totals $23,493.

The total number of vaults buried in trench #93 totaled 207 during fiscal year ending June 2002.

The Staff was able to breakdown total cost by class of waste. Class A waste totaled $181,872, class B waste was $253,279 and class C waste totaled $179,356. The total cubic foot cost for trench #93 was calculated to be $24.34.

3. **Slit Trench #19:** This slit trench contained 344 cubic feet of class C waste for the test year. The total cost of the waste received was $47,453.

This total was made up of vault cost of $26,712 and trench amortization expense of $20,741.

Trench amortization rates varied during the fiscal year from $4,047.09 for July 2001, $3,088.53 for the next 3 months ending October 2001, $3,026.36 for November 2001 and $1,526.35 for the remaining months of fiscal year ending June 30, 2002.

The total number of slit vaults buried in slit trench #19 during the fiscal year totaled 6.

The accumulated total of vaults buried in slit trench #19, totals 14 slit vaults.

The total amount of labor and other cost capitalized in fiscal year June 2002 totaled $3,176 for slit trench #19. Cumulative construction cost for slit trench #19 totals $43,213. Staff calculated a cost per cubic foot for slit trench #19 of $137.78.

4. **Slit Trench #20:** Staff's review found this slit trench had received 287 cubic feet of waste.

This total of 287 cubic feet of waste was a combination of 57 cubic feet of Class A Waste, 57 cubic feet of Class B Waste and 172 cubic feet of class C waste during the fiscal year June 2002.

The total cost associated with this slit trench Waste was $39,430. This total is made up of Vault cost of $22,260 and trench amortization cost of $17,170.

The number of slit vaults buried in slit trench #20 totaled 5 during the fiscal year ending June 30, 2002. Since this is the first year this slit trench has been used, this is the total number of slit vaults to-date in slit trench #20.

Total capitalized cost of labor and other cost during fiscal year ended June 30, 2002 totaled $21,230 for slit trench #20.

Trench #20's amortization rate for the fiscal year 2002 varied during the fiscal year. Starting in December 2001, the amortization rate was $3,434.06 through May 2002 and $3,188.37 for the month of June 2002.

Activity began in trench #20 during the month of December 2001.

Cumulative trench construction cost as of June 30, 2002 totaled $67,035. The cost per cubic foot calculated by the Staff was $137.39 for slit trench #20.

It should be noted that the Company is now expensing trench costs instead of accumulating these costs and then amortizing such accumulated costs over the life of the trench.

This method appears to the Staff to be allowable since levels of cubic feet of waste are reducing each year making it unnecessary to amortize trench costs and more reasonable to expense such costs as they are incurred.

5. **Staff's conclusion of variable cost:** The Staff combined all of the various trench cost and reported cubic feet of waste received during the fiscal year June 2002. Staff found the total **class A** cost was **$838,296**. Total cubic feet of class A waste received during the same time period was **35,080**. Using these totals, the Staff calculated the cost per cubic foot for class A waste is **$23.90**. Total class B waste received during the twelve months ending June 2002 is **12,128**. The total cost of the **class B** waste for the same time period is **$300,322**. Using this reported information, the Staff calculated a per cubic foot cost for class B waste at **$24.76**. Staff has not only been able to price class C waste combining all **class C** in one total, but also separating class by type of trench used in the burial of such waste. First, the Staff used total class C waste of **10,555** cubic feet received and total cost of all class C waste totaling **$313,305**. Using these combined amounts, Staff calculated a per cubic foot price for class C waste at **$29.68**. Staff was also able to separate class C waste stored in regular trenches and class C waste stored in slit

trenches. **Class C waste stored in regular** trenches totals **10,039** cubic feet of waste received at a total cost of **$242,194.** Using these cubic feet and total cost, the Staff calculated cost per cubic foot for class C in regular trenches at **$24.13.** Total cost assigned to **slit trenches** was found to total **$71,111.** Total cubic feet of waste received in slit trenches during the fiscal year 2002 were **516.** Using these totals, the Staff has determined the per cubic foot price for **slit trench class C waste** is **$137.65.**

**Q. Is the Staff making a recommendation to the Commission as it relates to variable cost?**

A. Yes, the Staff is going to make a recommendation. The Staff is of the opinion the best approach to valuing variable cost for Chem Nuclear is by class of waste, separating class C waste between regular trench burial and slit trench burial. **It is the Staff's opinion that class A waste should be valued at $23.90 per cubic foot, class B waste at $24.76 per cubic foot, class C (regular trench burial) at $24.13 per cubic foot and slit trench class C waste at $137.65 per cubic foot.**

**Q. Does the Staff have any other issues to discuss at this time?**

A. The Company has proposed to develop a Retention Compensation Plan which will be enacted during fiscal year 2003/2004 for cost purposes.

The Staff has reviewed the plan as well as met with the Company's officers and employees on several occasions to discuss this plan.

The Company has enacted all of the proposals made by the Staff and the Staff has no problem with the Company enacting such a plan.

The Plan does appear to reward all eligible employees and officers fairly.

The Plan, in the opinion of the Staff, appears to be a logical step for the Company to take during a period in which levels of waste are reducing, and reductions in necessary FTE's will be taking place as noted in the OEP Plan.

The ability of the Company to maintain a qualified work force and use of employees in the area of de-commissioning will appear to allow the Company the ability to meet these needs while at the same time maintaining its ability to handle and dispose of low level nuclear waste.

Currently the Company has not incurred any costs due to the Retention Plan. Such costs will be an issue during the fiscal year ending June 30, 2004.

At that time, the Staff will make any necessary recommendations as to the matter of operating margin on costs incurred due to the Plan.

**Q. Mr. Blume, does this conclude your direct testimony?**

A. Yes it does.